

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <https://www.djreprints.com>.

<https://online.wsj.com/article/SB10001424052702304521304576446250270069780.html>

What About the Trust Fund?

A teachable debt-ceiling moment.

July 16, 2011

President Obama famously played to grandma's Social Security fears this week, saying in an interview about the debt-ceiling talks that "I cannot guarantee that those checks go out on August 3 if we haven't resolved this issue because there may simply not be the money in the coffers to do it."

To which a friend of ours replied, whatever happened to the trust fund?

That's the fund that, according to our politicians, is holding all those Social Security taxes that workers pay. Why can't Congress or Mr. Obama dip into that \$2.6 trillion cash hoard to pay benefits until this debt-limit business gets sorted out? After all, as White House budget director Jack Lew put it in a February USA Today op-ed, "Social Security benefits are entirely self-financing."

Not quite. As everyone in Washington knows, the trust fund contains not cash but IOUs. Payroll taxes don't go to some vault in Fort Knox, and they certainly aren't invested. When Social Security runs a surplus, Congress spends the money immediately on something else and then the government claims its owes a debt to itself. Where the money will come from to pay these IOUs is anybody's guess—though Mr. Obama is hoping it will be higher taxes.

Trust fund balances only exist in "a bookkeeping sense," as Bill Clinton's budget director put it in 1999. "They do not consist of real economic assets that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury that, when redeemed, will have to be financed by raising taxes, borrowing from the public, or reducing benefits or other expenditures. The existence of large trust fund balances, therefore, does not, by itself, have any impact on the Government's ability to pay benefits."

The author of that concession to fiscal reality was none other than the same Jack Lew. Mr. Obama's contribution is his admission, however inadvertent, that the government has spent so much that even its own accounting and political fictions are collapsing.

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <https://www.djreprints.com>.